Clark Capital MANAGEMENT GROUP

NavigatorInsights

K. Sean Clark, CFA
Chief Investment Officer

As Clark Capital's Chief Investment Officer, Sean oversees all of the Firm's investment activities and heads the Firm's portfolio team. Sean joined the Firm in 1993 and is responsible for asset allocation and investment selection for Navigator Investment Solutions as well as directing ongoing market research and contributing to the development of proprietary products. Sean is a member of the Clark Capital Management Committee and the Board of Directors. He graduated from the University of Delaware, earning a B.S. and an M.A. in Economics. Sean is a Chartered Financial Analyst and a member of the CFA Institute (formerly AIMR) and the Financial Analysts of Philadelphia, Inc. Sean is considered an industry expert and is often asked to appear on CNBC and Bloomberg television to share his views on the market. In addition, Sean has been quoted in a number of articles in nationally distributed business journals and newspapers.

Unconstrained *versus* Nontraditional Bond Funds

What's the Difference and Which One Is Best for My Client?

With yields hovering around historic lows, a rise in rates could have a devastating effect on an investor's bond portfolio. This should not be a surprise; in February 2013, FINRA issued a warning to investors about the potential effects of a rising rate environment. It seems that everywhere you turn, investment managers, advisors and investors are talking about the bond markets.

Mutual fund net flows show a migration out of traditional fixed income vehicles and into nontraditional tools. From September 2013 through February of this year, $12 billion flowed out of traditional, core bond strategies and $20 billion flowed into nontraditional bond vehicles according to Morningstar.

In November of 2011, Morningstar created the "nontraditional" category to address this popular new fixed income investing style. There were about 100 funds in the new category. Today, there are over 300 bond funds in the category. Over time, and with the help of marketing, two distinct types are evolving: nontraditional and unconstrained.

This segment of the industry is evolving as it slowly matures. Given the popularity of nontraditional funds right now, it's important to understand the difference between nontraditional and unconstrained. It's not just semantics; there are clear differences between the two.

What Are the Differences?

Unconstrained Bond Funds	Nontraditional Bond Funds
"Go anywhere" funds are not tied to any single fixed income sector.	Well defined objectives, asset classes, and levels of risk that the portfolio manager will take.
The managers can do whatever they want with the investor's money, as long as it's invested in the bond market.	Traditional asset classifications: mortgage backs, corporates, municipals, high yield bonds but a non-traditional approach.
Example: They can short Peru and go Long Argentina bonds. It's "give the manager the money and let them go with it."	*Example:* The Navigator® Tactical Fixed Income Fund uses high quality debt, low quality debt and short term treasuries, but does not target a specific duration.

Investing in unconstrained funds can be a scary proposition for an advisor and client, since they don't really know where the portfolio risks are at any given point. There becomes no real way at the end of the day to go back and say, "How did the manager do? How did they do versus the risk they took?"

Clark Capital believes that a nontraditional fixed income approach is prudent. We prefer this style to unconstrained investing and have a long history of trading in a nontraditional way. In our view, It gives us and our partners a better way of knowing where the return is coming from. We believe there is more accountability and repeatability to the process.

We think these approaches will separate into more distinct categories, and Morningstar will lead the way. Until then, we feel it's important to take a close look at a nontraditional bond fund's investment objectives and process. If Morningstar officially recognizes unconstrained and nontraditional bonds as two distinct categories, we expect Clark Capital's Navigator® Fixed Income Total Return SMA, Navigator® Tactical Fixed Income mutual fund and Navigator® Duration Neutral mutual fund to remain firmly planted in the nontraditional fixed income space.

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